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United States Senate

WASHINGTON, DC 20510-3703

August 24, 2001

Mr. John Reich
Director
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

Dear Director Reich:

I am writing to seek your patience and assistance with regard to non-performing loans that could occur, or have occurred, as a result of drought and other resource problems in the Klamath Basin region of Oregon and California.

The Department of Interior Bureau of Reclamation (BOR) has provided agricultural water in the Klamath Basin through the Klamath Basin Irrigation Water Project (Project) for over 70 years. In addition, the BOR is required, by federal law, to provide water for species listed under the Endangered Species Act. This year, however, the Basin is experiencing its worst drought in 73 years. Due to the drought, on April 6, 2000, the BOR announced there would not be enough water in the Project for both agriculture and endangered species. Therefore, the BOR has not been able to deliver water to most of the family farmers who have traditionally received irrigation water from the Project. The impact of this decision has been devastating to the 1,500 farms dependent on that water.

For the short term, Congress recently appropriated \$20 million to Klamath Basin farmers to help them survive the impacts of the drought. They will receive these emergency funds shortly through the U.S. Department of Agriculture. I worked very hard, on a bipartisan basis, for this appropriation because existing federal disaster assistance programs and crop insurance programs were simply not geared toward the type of crisis currently at issue in the Basin. My colleagues and I will seek additional emergency appropriations for the duration of the session.

In addition to our emergency relief efforts, I am working toward finding solutions to this crisis that will address the short- and long-term challenges facing the Basin. Toward that end, I recently unveiled the framework for a possible legislative compromise that would stabilize and preserve the farm economy of the region while meeting other important wildlife and community needs. One of my proposals involves the buyout of some agricultural properties owned by economically distressed sellers, and managing those lands for the purpose of preserving an agricultural economy in the region, as well as to sustain federally protected wildlife. These buyouts, and the retirement of the associated water rights, could decrease water demand in the Basin and help place the remaining agricultural interests on far more solid footing.

Committees:

Budget
Commerce, Science
& Transportation
Energy & Natural Resources
Environment & Public Works
Select Committee on
Intelligence
Special Committee on Aging

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Sac Annex Building
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The Jamison Building
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The parties to the Klamath Basin water crisis are engaged in a court-ordered mediation effort to attempt to resolve a host of issues pertaining to water use in the Basin. I was informed this week that the mediation effort is scheduled to take six months, and I am concerned that, if Federal officials wait to see if the mediation is successful before pursuing legislative action, this delay could impose undue foreclosure pressure on lending institutions and leave Basin growers unprepared for the 2002 growing season. While I continue to support the mediation effort, I have decided to convene in September all relevant parties and all interested members of the Oregon and California delegations in a separate effort to arrive at a legislative package that will restore viability and certainty to both agriculture and wildlife in the region.

The buyout of properties belonging to distressed sellers would achieve two ends of great importance to your agency. First, it will ensure that the lending institutions which you regulate are paid in full according to the terms of their loans to these distressed properties. Additionally, it will free up water resources to the other landowner-borrowers who will choose to continue farming, ensuring that they will soon – and for the foreseeable future – have the means to perform on their loans. While federal buyouts are not a guaranteed outcome in the upcoming political process, I can assure you that Congress is far more likely to assist family farmers to procure additional water resources for wildlife protection than to bail out banks that have foreclosed on family farmers and, as a result, possess land with uncertain water rights.

Given these reasons, I am asking for your assistance in preserving the patience of lending institutions relied upon by landowners and growers in the Klamath Basin. Specifically, I ask that you instruct your regulators to convey to banks throughout the region that foreclosures should not be sought on non-performing agricultural loans in the region until the political process has had an opportunity to work its will. Those foreclosures would saddle lending institutions with land that will prove exceptionally difficult to sell, while taking away a promising avenue for a solution to the crisis and dashing the dreams of many of my constituents.

Thank you for your kind consideration of this request. I look forward to speaking with you in the coming days to discuss this further.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Wyden", with a long horizontal flourish extending to the right.

Ron Wyden
U.S. Senator

cc: The Honorable Ann Veneman, Secretary of Agriculture
The Honorable Gale Norton, Secretary of Interior
Mr. Michael M. Reyna, Chairman, Farm Credit Administration